

# BDO NEWS

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## FINANCIAL SERVICES SECTOR UPDATES Issue 4/2022



To maintain the financial stability and facilitate the economic growth of Hong Kong, regulators have been reviewing regulations, guidelines and compliance regularly. Regulators around the globe may introduce new requirements or take enforcement actions from time to time. In our 'Financial Services Sector Updates', it will include the latest development of the sector for your reference:

### **Hong Kong FSTB issued policy statement on the development on virtual assets**

In October 2022, Hong Kong's Financial Services and the Treasury Bureau (FSTB) issued a policy statement setting out the government's policy stance and approach towards developing a vibrant sector and ecosystem for virtual assets (VA) in Hong Kong. The following topics are covered in the statement:

1. Vision and approach: As an international financial centre, Hong Kong is open and inclusive towards the global community of innovators engaging in VA businesses. The government, in conjunction with the financial regulators, are working towards providing a facilitating environment for promoting sustainable and responsible development of the VA sector in Hong Kong. Timely and necessary crash barriers will be put in place to mitigate actual and potential risks in line with international standards, so that VA innovations can thrive in Hong Kong in a sustainable manner.

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2. **Regulations:** As the government steps up our preparatory work for a new licensing regime for VA service providers, which aligns the requirements for VA exchanges with the anti-money laundering and counter-terrorist financing (AML/CFT) and investor protection requirements that currently apply to traditional financial institutions, the government is ready to engage with global VA Exchanges and invite them to set foot in Hong Kong for new business opportunities. The Securities and Futures Commission (SFC) will be conducting a public consultation on how retail investors may be given a suitable degree of access to VA, and Hong Kong will be open to the possibility of having exchange traded funds (ETFs) on VA in our market.
3. **Pilot projects:** The government and the regulators are exploring a number of pilot projects to test the technological benefits brought by VA and their further applications in the financial markets. These projects include non-fungible token (NFT) issuance for Hong Kong Fintech Week 2022, green bond tokenisation, and e-HKD.
4. **Way forward:** The vision presented in this policy statement will be achieved by facilitating policies, comprehensive and balanced regulations, risk-based guardrails, as well as the pilot project.

**Read more from the source:**

<https://www.info.gov.hk/gia/general/202210/31/P2022103000454.htm>

### **BIS paper offers options for regulating big tech**

In October 2022, the Bank for International Settlements (BIS) released a new paper calling for a rethink on big tech regulation, offering two specific regulatory approaches for consideration.

The first approach is 'segregation', which seeks to control risks arising from interconnections between financial and non-financial activities by grouping all financial activities into a dedicated subgroup under a financial holding company structure. The subgroup would need to satisfy specific ring-fencing rules, such as the suspension of common use of group-wide technology platforms and data sharing within the group, to minimise interdependencies and prevent the misuse of data to build positions of market dominance.

The second approach is 'inclusion', which would involve the creation of a new regulatory category for big tech groups with significant financial activities, a so-called big tech financial group (BTFG). Regulatory requirements would be imposed on the BTFG as a whole including the big tech parent but would focus particularly on controls for intragroup

dependencies across financial and non-financial subsidiaries. The new rules and obligations would coexist with the existing requirements for the regulated subsidiaries, where the big tech parent would be responsible for obligations imposed at the group level mainly relating to governance, conduct of business, and operational resilience.

**Read more from the source:**

<https://www.bis.org/fsi/fsipapers20.htm>

### **SFC suspends the former licensed representative of SinoPac Securities (Asia) Limited for ten months**

In December 2022, the SFC suspended Ms Wang Pei Yi, a former licensed representative of SinoPac Securities (Asia) Limited (SinoPac), for 10 months from 14 December 2022 to 13 October 2023. The disciplinary action follows an SFC investigation which found that between June 2015 and April 2017, Wang made false declarations in the account opening forms of three corporate clients.

The SFC considers that Wang failed to act honestly, with due skill, care and diligence, and in the best interests of her clients. Wang's conduct exposed the clients to risks of their accounts being operated without their authorisation and was prejudicial to the interests of her clients as she was not able to verify if the forms which she signed were in fact signed by the clients themselves, and if the information stated in those forms for operating their accounts was correct.

In deciding the sanction, the SFC has taken into account all relevant circumstances, including Wang's otherwise clean disciplinary record.

**Read more from the source:**

<https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=22PR105>

### **FSB's recommendations for regulating crypto assets**

In October 2022, the Financial Stability Board (FSB) released its recommendations to strengthen international regulation of crypto assets and global stablecoin (GSC) arrangements.

FSB's recommendations for regulating crypto assets include the following points:

1. **The principle of 'same activity, same risk, same regulation'**

The FSB recommended that crypto assets should be regulated in a similar manner to any other kind of asset.

2. **Regulatory powers, cooperation and coordination**

The FSB recommends that authorities should have the

appropriate powers, tools and resources to regulate, supervise, and oversee crypto asset activities and markets.

### 3. Governance and risk management framework

The FSB recommends that crypto asset issuers and service providers should be obliged to establish robust governance frameworks.

### 4. Comprehensive regulation and separation of activities

The FSB stated that crypto asset service providers often engage in multiple functions such as custody, brokerage and lending, which may result in complex risk profiles and conflicts of interest. Existing market regulations can be applied to mitigate conflicts of interest and investor risks.

### 5. Higher standards for global stablecoin arrangements

GSC arrangements are expected to adhere to all applicable regulatory standards, and to address risks to financial stability before commencing operation, and to adapt to new regulatory requirements as necessary.

Read more from the source:

<https://www.weforum.org/agenda/2022/10/crypto-assets-regulation-financial-stability-board/>

## HKMA's AMLab focused on banking technology development

In September 2022, the Hong Kong Monetary Authority (HKMA) published a new paper outlining its initial observations from its AML Regtech Labs (AMLabs) series

launched in November 2021, as follow:

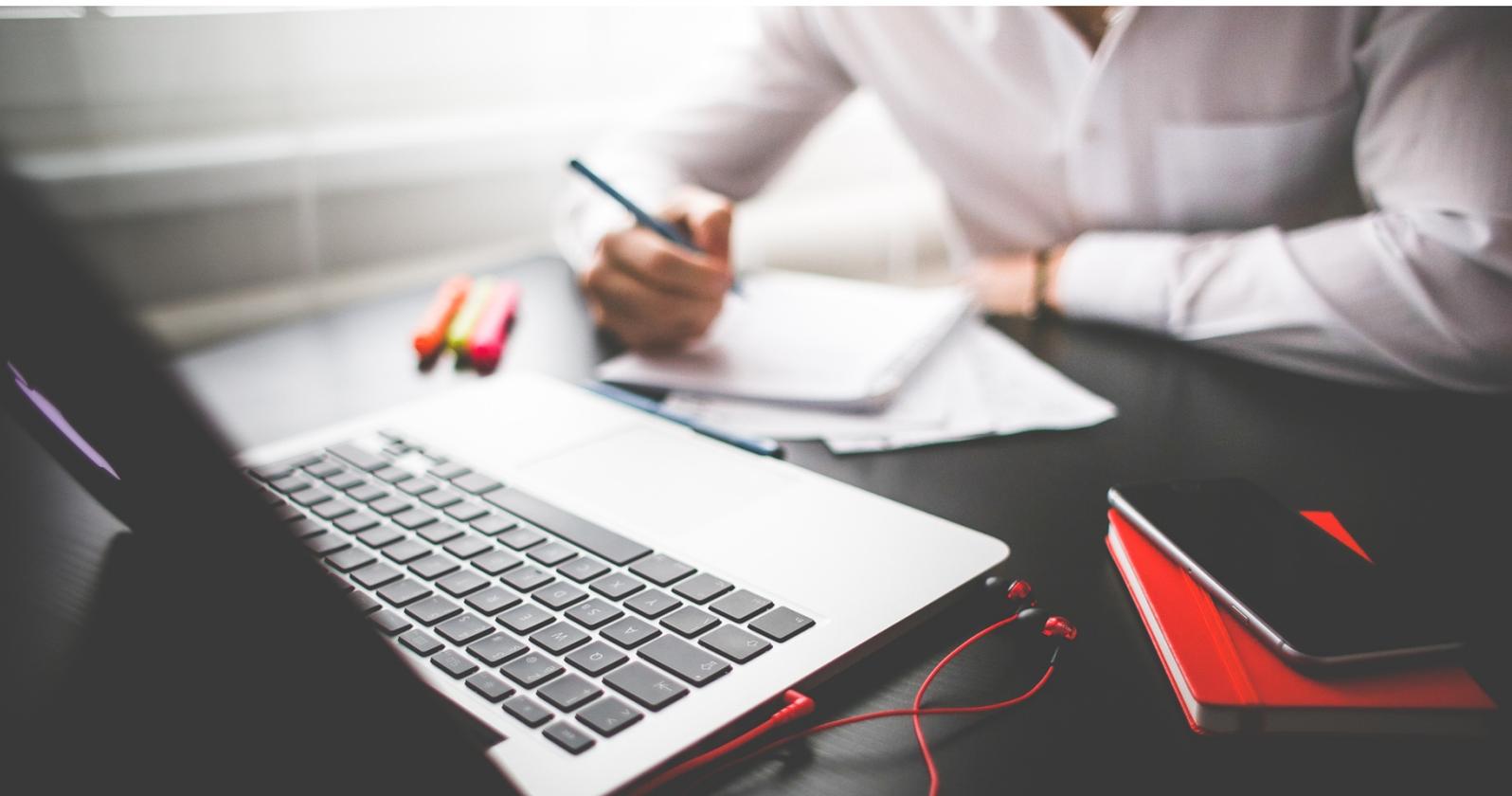
The first AMLab focused on network analytics to address the risks of fraud-related mule accounts and help to enhance data and information sharing through AML public-private partnerships such as Fraud and Money Laundering Intelligence Taskforce (FMLIT). A group of participating banks, with the assistance of data experts, used synthetic data to experiment with network diagrams in AMLab to identify suspected money-mule accounts and learn how to integrate alternative data, such as IP addresses, into more traditional data sets including transactional data, for analysis. This allowed the banks to develop skills and capabilities in applying network analytics to identify previously hidden money-laundering risks.

The second AMLab focused on 'enabling technologies', such as robotic process automation, low-code/no-code platforms and visualisation tools designed to present complex data in simple ways. It adopted a 'bottom-up' approach, targeting working-level AML practitioners to identify and assess pain points and explore solutions that may help address issues, as well as when and how to escalate matters for management's attention.

Future AMLab sessions will focus on various technologies that are relevant to the AML/CFT work of the banking sector. The HKMA will consult AML specialists at banks and ask them to identify themes and topics they want future AMLabs to cover.

Read more from the source:

<https://www.hkma.gov.hk/media/eng/publication-and-research/quarterly-bulletin/qb202209/fa1.pdf>



## How can BDO help?

It is important for financial institutions to keep up with compliance regulations updates from regulatory bodies, also implement any updates to existing effective compliance controls, inform and continuously refresh responsible management and staffs' regulatory requirement knowledge.

Our financial services team is a group of dedicated qualified and experienced compliance consultants who have up-to-date knowledge on regulatory requirements in the financial services industry and can provide consultancy service in relation to compliance with internal control procedures and regulations, independent assessment for license application, staff secondment, third-party assurance, etc. Get in touch to see how we can help your company!



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